

REPORT ON EXAMINATION
OF THE
DELAWARE VOLUNTEER FIREMEN & LADIES
AUXILIARY MUTUAL RELIEF ASSOCIATION INC.
AS OF
DECEMBER 31, 2003

State of Delaware



Department of Insurance

Dover, Delaware



I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2003 of the

DELAWARE VOLUNTEER FIREMEN & LADIES AUXILIARY MUTUAL RELIEF ASSOCIATION, INC.

is a true and correct copy of the document filed with this Department.

ATTEST BY: *Jennifer L. Dawson*

DATE: 1ST AUGUST, 2005



In Witness Whereof, I HAVE HEREUNTO SET MY HAND
AND AFFIXED THE OFFICIAL SEAL OF THIS
DEPARTMENT AT THE CITY OF DOVER, THIS
1ST DAY OF AUGUST, 2005.

Matthew Denn

Insurance Commissioner


Deputy Insurance Commissioner

REPORT ON EXAMINATION
OF THE
DELAWARE VOLUNTEER FIREMEN & LADIES AUXILIARY MUTUAL RELIEF ASSOCIATION, INC.
AS OF
December 31, 2003

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Matthew Denn", is written over a horizontal line.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 1ST day of AUGUST, 2005.

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Delaware Volunteer Firemen & Ladies Auxiliary
Mutual Relief Association Inc.

March 2, 2005

Honorable Mathew Denn
Insurance Commissioner
State of Delaware
841 Silver Lake Boulevard
Dover, Delaware 19901

Dear Commissioner:

In compliance with instructions contained in Certificate of Authority No.4.040, an examination has been made of the affairs, financial condition and management of the

Delaware Volunteer Firemen & Ladies Auxiliary
Mutual Relief Association Inc.

hereinafter referred to as "DVFLA" or "Company", incorporated as a mutual benefit association under the laws of the State of Delaware. The examination was conducted at the offices of the Company's auditing firm, Raymond F. Book & Associates, P.A. at 220 Beiser Blvd., Dover, Delaware.

The report of such examination is respectfully submitted herewith.

SCOPE OF EXAMINATION

The last examination was conducted as of December 31, 1998. This examination covers the period January 1, 1999 to December 31, 2003, and consisted of a general survey of the Company's business policies and practices; management, any corporate matters incident thereto; a verification and evaluation of assets and a determination of liabilities. Transactions subsequent to the latter date were reviewed where deemed necessary.

The format of this report is designed to explain the procedures employed on examination and the text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible officials during the course of the examination.

The general procedures of the examination followed the rules established by the National Association of Insurance Commissioners' (NAIC) Committee on Financial Condition Examiners Handbook, and generally accepted statutory insurance examination standards.

In addition to items hereinafter incorporated as part of the written report, the following were checked and made a part of the workpapers of this examination:

Fidelity Bond & Other Corporate Insurance
All asset and liabilities items not mentioned

HISTORY

The Delaware Volunteer Firemen's Association was incorporated on June 5, 1931. The insurance aspect of the Association evolved over the years and in January of 1974 there was a merger of two organizations, "the Mutual Relief Association of the DVFA Inc." and the Ladies Mutual Relief Association of the DVFA Inc.", into the corporation now known as the Delaware Volunteer and Ladies Auxiliary Mutual Relief Association Inc.

From its inception, DVFLA acted as an insurance entity, assuming the risks resulting from injuries to the fire fighters of its member volunteer fire companies. In

1992, however, injuries to volunteer firemen became covered under the Workers Compensation Policy of the State of Delaware. In 1997, the Company ceased acting as an insurance entity. Instead, acting as a risk-purchasing group, DVFLA purchased an insurance policy for its members from Provident Life and Accident Insurance Company of Chattanooga, Tennessee. In 2000 and 2004, DVFLA has purchased similar policies for its members. The Company continues to function as a risk-purchasing entity and does not underwrite insurance.

PURPOSES

The objects and purposes of the DVFLA shall be in the joining together of the volunteer fire companies of the State of Delaware into a Mutual group for the relief to individual members of said fire companies. This relief being due entirely to accidents occurring during fire, rescue and ambulance duty and various other firemen related activities. The primary purpose of the DVFLA is to reduce the costs of carrying relief protection for the members of the participating fire companies.

MANAGEMENT AND CONTROL

The DVFLA shall have a Board of Trustees, which shall consist of nine members. Trustees serve three-year terms. Trustees are divided into the following three groups for representation purposes; each group shall have three (3) trustees:

Delaware Volunteer Firemen & Ladies Auxiliary
Mutual Relief Association Inc.

- The State Trustees - one from each county in Delaware. The State Trustees are appointed by the President of the Delaware Volunteer Firemen's Association.
- The County Men Trustees
- The County Women Trustees

The latter two groups shall have one representative from New Castle, Kent and Sussex Counties; however, each of the County Trustees shall be appointed by the President of the respective County volunteer firemen's association or County ladies' auxiliary.

The members of the Board of Trustees as of December 31, 2003 are as follows:

Daniel Burris	Lil Noonan
Lester Beachy	John Smith
Wayne Fuller	Wallace Hudson
Katherine O'Neal	Lynn Dill
Robert Yerkes	

The officers of DVFLA, elected by the Trustees and serving as of year-end 2003, are as follows:

Daniel Burris	Chairman
Lester Beachy	Vice-Chairman
Lil Noonan	Secretary
John Smith	Treasurer

TERRITORY AND PLAN OF OPERATION

The Company is licensed to underwrite insurance only in the State of Delaware. However, as noted previously, in 1997, DVFLA ceased acting as an insurance underwriting entity and began functioning as a risk-purchasing group. The Company arranged for a three-year Emergency Responder Blanket Accident Insurance Policy from

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Provident Life and Accident Insurance Company of Chattanooga, Tennessee. Similar policies were arranged in 2000 (a thirty-nine month policy) and 2004.

The policies arranged by DVFLA provide benefits for Death or Dismemberment and medical expenses for injury or illness. The Company pays the entire premium at the outset of the policy and then bills the member fire companies annually for one-third of the premium. These yearly installments include a discount for prompt payment that DVFLA funds through investment income. For the 1997 policy, a 20% discount was offered. For the 2000 policy, the discount was 25%, and for the 2004 policy, DVFLA provided a 15% discount to its members.

Company management indicated to the examination there are no plans at this time to resume underwriting insurance using the Company's Certificate of Insurance with the Delaware Insurance Department.

ACCOUNTS AND RECORDS

The Company's books and records are audited on an annual basis by the accounting firm of Raymond F. Book & Associates. The workpapers of the accounting firm's 2003 audit were reviewed by the examination and utilized to the extent possible. It should be noted that because the Company is not operating as an insurer, and because it is audited on an annual basis, DVFLA has been given permission by the Delaware Insurance Department to file an abbreviated Annual Statement, which includes just the Balance Sheet, Summary of Operations, and Cash Flow statements. The Company has no employees and no permanent office is maintained.

Delaware Volunteer Firemen & Ladies Auxiliary
Mutual Relief Association Inc.

FINANCIAL STATEMENTS

The Company's financial position on December 31, 2003 and the results of operations for 2003 are presented in the following statements:

ASSETS

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>	<u>Notes</u>
Cash and short-term investments	\$400,114		\$400,114	
Other invested assets	669,684		669,684	1
Aggregate write-in for invested assets	30,483		30,483	2
Investment income due and accrued	1,601		1,601	
Accrued premiums receivable	43,056	43,056		
TOTALS	<u>\$1,144,938</u>	<u>\$43,056</u>	<u>\$1,101,882</u>	

LIABILITIES, SURPLUS AND OTHER FUNDS

		Notes
Premium funds received in advance	\$86,647	
Benefit Fund liability	1,475	
General expenses due and accrued		3
Total liabilities	<u>\$88,122</u>	
Guaranty Fund	\$30,000	
Unassigned funds	<u>983,760</u>	
Total Fund Balance	<u>\$1,013,760</u>	
TOTAL	<u>\$1,101,882</u>	

Delaware Volunteer Firemen & Ladies Auxiliary
Mutual Relief Association Inc.

STATEMENT OF REVENUE AND EXPENSES

Net investment income	\$ 29,727
Reimbursements for premiums	95,456
Dues	<u>2,950</u>
Total Revenue	128,133
General insurance and fraternal expense	143,488
Taxes, licenses and fees	20
Benefit Fund expense	<u>50</u>
Total Expenses	<u>143,558</u>
Net gain from operations	(15,425)
Net realized capital gains	<u>4,080</u>
NET INCOME	<u><u>\$(11,345)</u></u>

SURPLUS ACCOUNT

Fund Balance December 31, 2002	\$780,838
Net income	\$(11,345)
Change in non-admitted assets	146,715
Change in net unrealized capital gains	<u>97,552</u>
Net change in Fund Balance	<u>232,922</u>
Fund Balance, December 31, 2003	<u><u>\$1,013,760</u></u>

The examination will propose no financial adjustments.

NOTES TO FINANCIAL STATEMENTS

Note 1 Other Invested Assets \$669,684

The Company reported the amount of \$669,684 for the above captioned asset on the 2003 Annual Statement.

The Annual Statement balance actually consisted of:

Bonds	\$249,319
Mutual Funds	<u>420,365</u>
Total	<u>\$669,684</u>

The Company is given permission by the Department to file an abbreviated Annual Statement, but the Company should report its assets in the proper annual statement lines.

It is recommended the Company report its invested assets in accordance with Annual Statement instructions.

The Company maintains most of its invested assets with Edward Jones, a brokerage firm. According to the NAIC Financial Examiners Handbook, the examination can only accept custodian statements from a regulated bank or trust company that provides a custodial agreement that contains recommended safeguards.

It is recommended the Company enter into a custodial agreement with a regulated bank or trust company. Said custodial agreement should contain the safeguards recommended by the NAIC.

Note #2 Aggregate write-in for invested assets \$30,483

The above amount is actually the Company's guaranty fund deposit established in accordance with Section 5509 of the Delaware Insurance Code. The deposit should be reported in the Cash and short-term investment Annual Statement line item but the

Company chooses to show the segregation of funds by reporting the deposit separately. The Company established an escrow account with Mellon Bank in 2001 to comply with a recommendation in the previous report of examination. In 2002, Citizens Bank purchased the retail banking business of Mellon Bank in certain locations. While the Company's deposit is with Citizens Bank, the escrow agreement governing the deposit is with Mellon Bank.

It is recommended the Company enter into a new escrow agreement for the Guaranty Fund deposit with Citizens Bank.

Note #3 General expenses due and accrued.

DVFLA reported no amount for the above liability on the 2003 Annual Statement. The examination noted that subsequent to year end 2003, the Company paid expenses relating to the 2003 audit and preparation of the annual statement. While the amount of this payment was non-material in relation to the Company's Fund Balance:

It is recommended the Company accrue for audit expenses and for the expense of preparing the Annual Statement. The Company should also accrue a pro rata portion of examination costs.

STATUS OF PRIOR EXAMINATION RECOMMENDATIONS

The previous examination contained two recommendations:

- That the Company cease reporting premium income in that DVFLA no longer operates as an insurance company.

The current examination noted compliance with this recommendation.

- That the Company comply with Section 5509 of the Delaware Insurance Code by either depositing its Guaranty Fund amount with the Commissioner or deposit the

Guaranty Fund amount in an approved escrow account naming the Commissioner as beneficiary.

As noted above (See Note #2 to the Financial Statements), the Company did comply with the recommendation in the previous report of examination by depositing the Guaranty Fund in an escrow account naming the Insurance Commissioner as beneficiary.

RECOMMENDATIONS

The Company's attention is directed to the following:

It is recommended the Company report its invested assets in accordance with Annual Statement instructions. (See Note #1 to Financial Statements.)

It is recommended the Company enter into a custodial agreement with a regulated bank or trust company. Said custodial agreement should contain the safeguards recommended by the NAIC. (See Note #1 to Financial Statements.)

It is recommended the Company enter into a new escrow agreement for the Guaranty Fund deposit with Citizens Bank. (See Note #2 to Financial Statements)

It is recommended the Company accrue for audit expenses and for the expense of preparing the Annual Statement. The Company should also accrue a pro rata portion of examination costs. (See Note #3 to Financial Statements).

SUMMARY COMMENTS

The following items of significance were noted during the examination:

The Company ceased functioning as an insurance company in 1997. At that time, DVFLA arranged for insurance coverage for its member volunteer fire companies

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with Provident Life and Accident Insurance Company of Chattanooga, Tennessee.

DVFLA arranged for similar accident-disability policies from the same insurer in 2000 and 2004.

The Company pays the entire premium at the outset of the policy and then bills the fire companies annually for one-third of the premium. DVFLA uses its investment income to offer the member fire companies a prompt pay discount on the premium.

Company management indicated to the examination that there are no plans to resume underwriting insurance using the Company's Certificate of Authority issued by the Delaware Insurance Department.

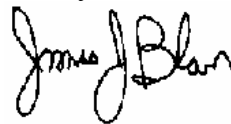
CONCLUSION

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

<u>Description</u>	<u>Current Examination</u>	<u>12/31/1998 Examination</u>	<u>Changes Increases (Decreases)</u>
Assets	\$1,101,882	\$ 894,206	\$207,676
Liabilities	88,122	66,871	21,251
Fund Balance	1,013,760	827,335	186,425

The examination was conducted by the undersigned.

Respectfully submitted,



James J. Blair Jr., CFE, CPA
Supervisor
Insurance Department
State of Delaware